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Japan's Economy Slips A Notch

At first glance the figures suggested that the Japanese economy had taken a terrible spill. Japan's inflation-adjusted gross national product declined at a 3.1 percent annual rate in the April-June 1989 quarter. Furthermore, the largest single GNP component, personal consumer spending, slipped an annualized 5.2 percent from the quarter before, the biggest drop since the disastrous first oil shock was reflected in data for the first quarter of 1974.

Do the numbers mean that Japan's economic expansion, now one of its longest in postwar history, has come to a screeching halt? Probably not. The latest figures are evidence mainly of the dangers of identifying economic trends on the basis of one quarter's data. Over the longer term the Japanese economy continues to look healthy; compared to the same quarter of 1988, GNP jumped a real 4.8 percent.

Japan's Real Gross National Product at Constant (1980) Prices

(in billions of yen, seasonally adjusted, quarterly totals and rates of growth at annual rates)

	FY 1987	FY 1988	July-September 1988	October-December 1988	January-March 1989	April-June 1989
Gross National Product	Y317,589.4 (5.2%)	Y333,936.1 (5.1%)	Y332,443.8 (9.5%)	Y335,266.6 (3.4%)	Y343,077.2 (9.6%)	Y340,380.1 (-3.1%)
Personal Consumption Spending	176,575.8 (4.5%)	184,805.8 (4.7%)	184,590.0 (5.8%)	184,620.7 (0.1%)	188,047.3 (7.6%)	185,559.3 (-5.2%)
Private Residential Construction	19,631.1 (25.6%)	20,998.6 (7.0%)	20,854.4 (26.0%)	22,028.0 (24.5%)	21,601.3 (-7.5%)	20,800.7 (-14.0%)
Private Fixed Nonresidential Investment	61,812.5 (10.0%)	72,890.9 (17.9%)	71,021.6 (18.0%)	73,420.6 (14.2%)	78,390.0 (29.9%)	80,582.0 (11.7%)
Change in Business Inventories	1,274.0 (*)	1,463.1 (*)	2,093.0 (*)	1,496.3 (*)	243.1 (*)	1,823.5 (*)
Government Current Expenditures	28,637.2 (-0.9%)	29,254.2 (2.2%)	29,184.4 (2.7%)	29,376.7 (2.7%)	29,463.0 (1.2%)	29,581.7 (1.6%)
Government Fixed Investment	24,466.8 (10.0%)	24,981.6 (2.1%)	24,734.6 (-7.0%)	24,910.7 (2.9%)	25,144.8 (3.8%)	25,056.2 (-1.4%)
Change in Government Inventories	45.3 (*)	-194.6 (*)	-225.9 (*)	-916.2 (*)	253.3 (*)	404.0 (*)
Net External Sector	5,146.7 (-36.0%)	-263.5 (-105.1%)	191.7 (*)	329.8 (875.2%)	-65.6 (*)	-3,427.3 (*)
Exports of Goods and Services and Factor Income Received	55,415.8 (5.2%)	61,004.9 (10.1%)	60,994.6 (47.2%)	61,381.8 (2.6%)	66,522.8 (38.0%)	64,378.3 (-12.3%)
Imports of Goods and Services and Factor Income Paid	50,269.1 (12.6%)	61,268.4 (21.9%)	60,802.9 (33.4%)	61,052.0 (1.6%)	66,588.4 (41.5%)	67,805.6 (7.5%)

*Cannot be calculated or meaningless.

Source: Economic Planning Agency

The latest news, while nothing to cheer about, was not as bad as it looked. Once again the principal culprit was the consumption tax introduced April 1, which has been playing havoc with economic data all year. The January-March GNP figures, which showed real growth surging at a revised 9.6 percent rate, had been inflated by anticipatory buying in advance of the 3 percent tax, levied on virtually all goods and services. With those purchases taken out of the April-June period, the quarter-to-quarter GNP growth rate turned negative.

While consumer spending took the biggest hit, virtually all categories of GNP were affected by the introduction of the tax. Plant and equipment investment, up 11.7 percent in the latest quarter on an annualized basis, was sluggish in comparison with the feverish expansion of the first three months of the year. Business inventory investment, usually a small component of GNP, took an uncharacteristically large jump and made almost as large a positive contribution to GNP growth as plant and equipment spending. But this apparently favorable result was a lot less attractive on closer inspection. Firms either rebuilt inventories depleted by feverish customer buying in March ahead of the tax or involuntarily accumulated unsold goods because they underestimated the falloff in consumer spending after the tax went into effect.

The foreign sector shaved 1 percentage point off what otherwise would have been a small positive quarterly GNP growth rate as exports dropped in real terms and imports expanded. This development, while depressing further an already weak domestic economic performance, was welcome given Tokyo's efforts to rein in Japan's external imbalances. However, according to much expert opinion, including that of the International Monetary Fund as reflected in its recent world economic outlook, the downward trend in Japan's current account is likely to reverse in response to the continued weakness of the yen on international currency markets. If so, Japan's inflation-adjusted net export figure probably is poised to turn upward.

Economic Planning Agency officials, among others, profess to be unconcerned about the latest GNP figures. Some experts already are forecasting yet another reverberation related to the consumption tax. In this view, with consumer spending so low in the April-June quarter, purchases in the July-September period are likely to rebound strongly, leading to an exceptional rate of GNP growth for the current period.

Few experts inside or outside government believe that the latest figures seriously threaten EPA's outlook for 4 percent real growth in fiscal 1989, which began April 1. If anything, that figure, which private forecasters had felt was too pessimistic, now looks more realistic.

In short, the quarter-to-quarter GNP figures are likely to resemble a roller coaster for a while longer. And those responsible for the safety of the ride continue to insist -- initial appearances notwithstanding -- that there is little to worry about.

Douglas Ostrom

Labor Shortage Worries Japanese Industry

When Japan's rate of unemployment soared to a historic high of 3.1 percent in May 1987, many Japanese entrepreneurs believed the economy was forging